

October 15, 2007

HONORABLE MAYOR AND CITY COUNCIL:

I am pleased to present the *2007-2008 Adopted Operating Budget*, a fiscal roadmap for San José that approved new resources for some key City Council priority areas, closed a projected \$16 million budget gap, and set the groundwork to begin addressing the long-term structural deficit that has been much-discussed by the Mayor and City Council. This Adopted Budget also reflects the new budgeting process established by the City Council when it approved the Reed Reforms at its first meeting in January, 2007.

In formulating the 2007-2008 Proposed Budget, the Administration had prioritized the emerging needs of the City as identified by the City Council, while maintaining a conservative fiscal approach that has allowed San José to sustain the highest bond rating of any large city in California. A careful reading of the final product of the budget process, the 2007-2008 Adopted Operating Budget will reveal the strategic addition of resources to address some critical service and infrastructure needs. Among these are actions that address public safety needs, staffing in our community centers and aquatics facilities, as well as some key strategic support areas where earlier reductions have significantly restricted the ability of certain key departments to support the organization.

The City continues to face significant long-term fiscal challenges, and the list of unmet needs includes significant levels of infrastructure maintenance that will remain largely unaddressed for another year. While our local economy has recovered from the lengthy and powerful recession that began in 2001, any significant growth in economically sensitive revenues appears to have leveled off with some key indicators now showing signs of weakness. Furthermore, despite the improved picture from five years ago, we now face a sixth consecutive year with a multi-million dollar General Fund deficit and the 2008-2012 General Fund forecast projects continuing deficits into the future. Put simply, the cost of continuing the current level of service will not be sustainable in the future absent new sources of revenue, and/or a reduction in costs. As a result, the City of San José will continue to need to confront the need for significant budget reductions and/or revenue augmentations.

The City Council addressed this issue at its February Priority Setting Study Session when it established the elimination of the structural deficit as one of five 3-year goals. This Adopted Budget makes progress in this regard by closing 94% of this year's General Fund deficit with ongoing funding solutions, thus reducing the negative impact on future budget years that occurs when one-time dollars are used to address ongoing needs.

2007–2008 ADOPTED BUDGET MESSAGE

While San José's overall fiscal condition remains sound, and the local economy shows encouraging signs in some areas such as job growth and the unemployment rate, other recent indicators must give pause to all but the most conservative assumptions about future revenues. While economically sensitive revenue sources will meet projections for the current year, the City's second largest revenue source, Sales Tax, has not experienced any growth in the first half of 2006-2007. Further, the slowing housing market poses twin threats, both to Property Tax and Sales Tax revenues. Property Tax revenues fall with the declining price of home sales, and Sales Tax dollars could decline as spending on construction materials slows along with consumer spending that has been fueled until now by the appreciation in housing prices.

While these are worrisome indicators, overall we are able to project moderate growth in revenues for the coming year. The actions in this budget are based on the underlying assumption that the economic environment in the region will return neither to the high growth levels of the late 1990s nor the recession conditions in the first four years of the decade. While the Valley economy and the associated City revenue performance are expected to maintain modest growth, as noted earlier, we must include a reminder that expenditure levels simply to maintain existing General Fund programs will exceed those revenue growth rates.

NEW BUDGET PROCESS

Despite the ongoing fiscal challenges, the actions in this Adopted Operating Budget continue to reflect City Council priorities, directing resources toward essential services, basic infrastructure requirements, economic development opportunities, and maintaining the City's strong commitment to neighborhoods.

The City embarked on a new and markedly different public process leading up to the creation of this adopted budget. Following passage of the Reed Reforms in early January, a telephone poll of 450 residents was conducted in English, Spanish and Vietnamese. The results showed that a majority of residents believe the City is currently spending the right amount of money in key service areas. If additional money was available, those surveyed would prefer that new dollars be targeted for police services and street maintenance and repairs. The survey also showed that a significant number of residents were unwilling to cut funding in one area to enhance services in another. Immediately following the telephone survey, a neighborhood association budget priority setting session was held on a Saturday. More than 100 neighborhood leaders attended the facilitated session, identifying five key priorities:

- Increase the number of jobs in the City of San José;
- Improve proactive code enforcement;
- Provide full funding for parks, pools, community centers and libraries, including maintenance and operations and development;
- Improve community policing in the neighborhoods; and
- Improve General Fund revenue.

2007–2008 ADOPTED BUDGET MESSAGE

NEW BUDGET PROCESS (CONT'D.)

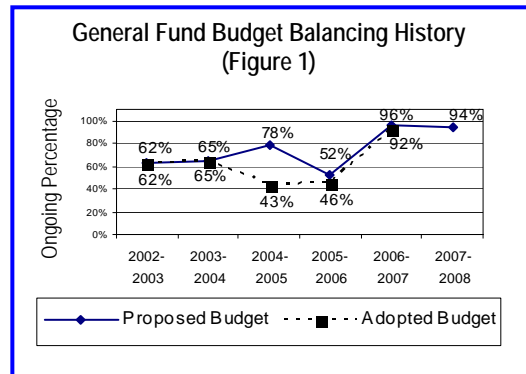
Following these extraordinary community outreach efforts, the City Council, Council Appointees, and Senior Staff met in a full day Council Priority Setting Study Session. Building upon the input received from both the survey and neighborhood meetings, five priorities were identified as 3-year goals for the City. A number of actions in this budget that support and advance the five goals are identified in the table below, along with a summary of related actions:

3-Year Goal	Adopted Budget Actions
Maintain our status as the safest big city in America	<ul style="list-style-type: none">• Adds 15 sworn positions and protected all core patrol functions.• Restores emergency dispatch supervisor position.• Adds 13 fire positions for new Station 34.• Adds a Battalion Chief for special operations training.
Eliminate the structural budget deficit	<ul style="list-style-type: none">• Establishes a foundation for the future elimination of the structural budget deficit by maximizing the use of ongoing dollars to close this year's budget deficit, thereby minimizing the impact on future year budgets.• Establishes \$2 million reserve to begin addressing the City's GASB 43/45 liability for future benefits.• Sets in motion a process to engage employees, who must be partners in reducing costs, to identify and craft cost-reduction strategies.
Reduce deferred maintenance and the infrastructure backlog and develop a strategy to improve the infrastructure	<ul style="list-style-type: none">• Restores park maintenance funding.• Establishes \$5 million in one-time funding for street infrastructure maintenance.• Sets aside \$5.1 million in one-time funding for technology infrastructure upgrades.• A community engagement process is underway to develop a Transportation Maintenance Master Plan to develop funding priorities for maintenance and discuss funding strategies.
Increase economic vitality	<ul style="list-style-type: none">• Establishes an Economic Incentive Fund that would be available to provide incentives for extraordinary and unanticipated development activities to ensure creation of new jobs in San José.• Provides funding for international air service development.
Provide full funding for parks, pools, community centers and libraries, including maintenance, operation and development	<ul style="list-style-type: none">• Adds 12 positions plus funding for utilities, custodial and preventive maintenance for new parks and recreation facilities.• Restores aquatics positions and funding to support operations at four school-leased pool sites.• Adds 22 positions for Northside Community Center, Alma Senior Center, Hank Lopez Youth/Community Center, St. James Senior Center, and the remaining 17 re-use sites.• Adds funding to make permanent 9 temporary therapeutic staff positions at Grace Community Center.

2007-2008 ADOPTED BUDGET MESSAGE

STRUCTURAL DEFICIT & UNMET NEEDS

As noted above, 94% of the \$16 million General Fund budget shortfall has been closed in this Adopted Budget with ongoing dollars, a significant improvement over the past five years of deficit closing actions, as Figure 1 demonstrates. If the City Council wished to close the current deficit with only ongoing dollars, an additional \$1.3 million in cuts would have been required. Adherence to the policy of funding ongoing programs and services with only ongoing dollars is an important goal. However, in the context of a base \$900 million operating budget, experience has demonstrated a consistent surplus year-end balance of several million dollars. Therefore, it was the Administration's belief that the use of \$1.3 million in one-time dollars (.14% of the base operating budget) to close the current deficit still met the test of sound fiscal principles. Nevertheless, the Administration had evaluated additional reductions that could be imposed to meet the 100% goal although it was not recommended to do so. Those additional reductions are displayed in Table 1 below.



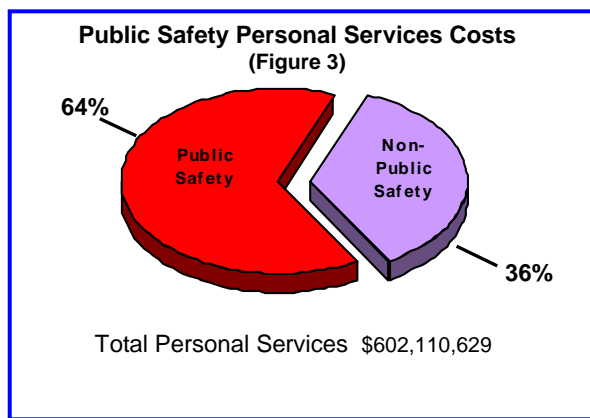
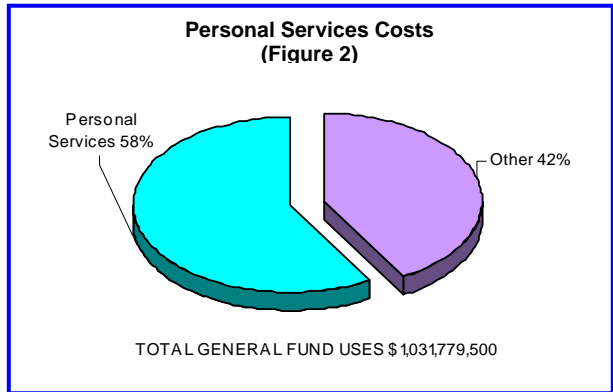
Additional Reductions Not Recommended (Table 1)	
Eliminate Proposed Additions	
2 New General Code Enforcement Inspector Positions	(197,292)
Eliminate ADA Coordinator	(172,040)
Eliminate Return to Work Coordinator	(126,163)
Subtotal	(495,495)
Additional Program Reductions	
Elimination of Hose Wagon 6	(439,285)
Summer Youth Employment Program	(232,788)
Youth Commission Support	(85,289)
Subtotal	(757,362)
Total	(1,252,857)

Our ability to sustain services throughout the recession and slow recovery has rested on the conservative fiscal policies adhered to by the City Council and the organization over the past five years. As we have in years past, this year the Administration continued a Cost/Position Management Plan to reduce the impact of the projected shortfall in the General Fund. This plan required every General Fund department to meet a savings target in the current fiscal year. This effort resulted in additional savings of \$4.2 million to help balance the 2007-2008 Adopted Budget. We also continued the freeze in hiring for non-critical positions, first imposed in 2001 with the desired effect of reducing expenditures and preserving vacancies to avoid layoffs. While the number of City employees remains down from a high of nearly 7,500, the 6,992 positions included in the 2007-2008 Adopted Budget, represents a net increase of 149 positions to address the City Council's priorities in Public Safety and Neighborhood Services and to shore up critical staff in key Strategic Support departments.

2007–2008 ADOPTED BUDGET MESSAGE

STRUCTURAL DEFICIT & UNMET NEEDS (CONT'D.)

As noted above, the City continues to confront a structural problem in the General Fund with expenditures exceeding revenues in each year of the Five-Year Forecast. As is well-understood by this City Council and by anyone familiar with municipal budgeting, the largest portion by far of General Fund dollars goes to pay for the salaries and benefits of City employees. As shown in the Personal Services Costs chart (Figure 2), two-thirds of General Fund expenditures are directly tied to personnel costs. The challenge in reducing personnel costs is exacerbated by the fact that fully 58% of the personnel costs (Figure 3) are in Public Safety, a priority area in which it is always difficult to make reductions. Together, these two charts demonstrate the dilemma facing San José.



San José. The cost of simply continuing the current level of services pushes higher each year, driven partially by cost of living increases, but more by the cost of providing health and retirement benefits. An added concern is that with 33% of our employees reaching retirement eligibility within the next five years, the City must remain competitive in attracting new talent—yet another upward pressure on the budget.

Approximately 250 new positions were approved for addition in this budget from the Forecast Base Budget level. The additions were concentrated in several key areas, such as:

- **Public Safety**, with the addition of 14 new Police Officers and 1 Sergeant, per direction in the Mayor's March Budget Message, and 13 new positions to staff Fire Station 34;
- **Neighborhood Services**, with 22 positions for the approved Community Center Re-Use plan, 9 positions for aquatics programming needs, 9 positions for the conversion of Grace Community Center staff to City staff, and 12 new positions for operations and maintenance needs for new recreational facilities, such as Lake Cunningham Skate Park and two new dog parks;
- **Strategic Support**, with approved additions for the Customer Contact Center (19 positions) and financial and technical positions (8 positions) to support the Integrated Billing System, Human Resources, where improvements to the Workers' Compensation Program (6 positions) and recruitment efforts (3 positions) were approved, and Finance, where new initiatives such as the Revenue Collection Strategic Plan (5 positions) and an aggressive encumbrance liquidation project (1 position) were approved.

While the positions above were approved for funding in the General Fund, other strategic additions were approved to be funded by special or capital funds. The Development Fee Programs are

2007–2008 ADOPTED BUDGET MESSAGE

STRUCTURAL DEFICIT & UNMET NEEDS (CONT'D.)

included in this category as well. Key position changes funded from sources other than the General Fund included:

- **Transportation**, where 19 new positions were approved to implement improvements programmed in the Traffic Capital Program;
- **Airport**, where 5 new positions were approved for maintenance and operations needs associated with Terminal A+;
- **Development Services**, with developers reimbursing the City for the cost of 9 positions to review plans and perform inspection services associated with new development; and,
- **Water Pollution Control Plant**, where 22 new positions were approved to implement an aggressive maintenance and infrastructure improvement plan.

While this Adopted Budget and the Five-Year Forecast demonstrate the City's ability to continue essentially limping along at current levels, the more profound concern is our ability to address a long list of unmet needs that looms large and presents almost unavoidable expenditure increases in the future. These fall into two categories: 1) Unmet/Deferred Infrastructure and Maintenance Needs; and, 2) New and Unfunded Initiatives/Programs. A small number of the most critical current year needs on this list were addressed in this Adopted Budget. However, the larger list presents an unavoidable fiscal challenge. Just looking at the \$20 million necessary to implement the first tier of the police staffing plan, and the over \$400 million necessary to meet our transportation infrastructure needs illustrate the challenge. To make any significant headway in adding these funds, the City will likely need to identify revenue shifts and/or alternative funding mechanisms such as assessment districts or bond measures on the capital side to free up dollars for the General Fund. The community expectations for public service would not sustain the \$20 million reduction in non-Public Safety areas that would be required to fund the Police Staffing Plan in 2007-2008.

The only way to address the long term and enduring structural deficit is to increase revenues or decrease the cost of employees. The largest single budgetary impact in the foreseeable future is the effect of GASB 43/45, which changes accepted accounting rules for the public sector when addressing future retirement liabilities. While San José is better off than most local governments due to its historically conservative approach to funding the full cost of retirement obligations in each budget and Five-Year Forecast, the cost of the GASB 43/45 accounting change is still projected to be in the range of \$100 million annually (all funds), to fully fund both the outstanding liability and the obligation going forward. A \$2 million down payment on this future obligation is included in this budget.

In recent years San José has been very prudent in its use of reserve funds, and it is important to note that this cautious approach is one of the key factors that has allowed San José to sustain a strong AA+ bond rating. This rating is still the highest of any major California city and has translated directly to the City's bottom line by keeping interest rates low when we borrow money.

2007–2008 ADOPTED BUDGET MESSAGE

STRUCTURAL DEFICIT & UNMET NEEDS (CONT'D.)

The historically cautious approach to budgeting that San José has maintained for the past six years must be sustained for the foreseeable future. Absent a dramatic change in our revenues or costs, we should continue to act prudently and dedicate one-time funding to meeting two critical needs: 1) infrastructure maintenance costs that continue to grow significantly; and, 2) emergency reserves to address GASB and other unmet needs that will challenge the City's ability to maintain our hard-earned credit rating. As noted above, the City Council approved augmentations for the use of one-time dollars to address critical needs in several of the 3-Year Goals established in its Council Priority Setting Study Session. A full review of the City's budget balancing strategy is detailed in the *General Fund Balancing Strategy Detail*, Attachment A of this Message.

ECONOMIC PERFORMANCE

As is the case every year, the most significant challenge the Administration faced in formulating a budget for the coming year was projecting the condition of the local economy and the associated revenue collections. For the 2007-2008 Adopted Budget, the revenue estimates were built on the assumption of continued modest economic growth at the national, State and local levels, with some impacts associated with the slowdown in the housing market. A brief discussion of the economic outlook in those areas is included below.

National/California Outlook

Consistent with the primary economic forecasting data we rely on, revenue estimates in the Adopted Budget assumed that the U.S. economy will continue to grow, but at a slower rate in 2007 primarily as a result of the housing market slowdown. The UCLA Anderson Business School forecast predicts, for example, that 2007 economic growth will be lower than the average of what has occurred for the last several years. The 2006 edition of *California Economic Growth* issued by the Center for Continuing Study of the California Economy echoes this, predicting "Economic growth in 2007 should be slower than in 2006. A housing slowdown has begun and should continue into next year. This will restrain job growth and consumer spending." Consistent with that view, recent financial reports by the country's largest corporations have shown slowdowns in profit growth. As profits fall, employment declines are usually not far behind. Interest rates are also inching upward as the result of inflation fears and a falling dollar. Rising interest rates have historically made it more difficult for people to buy cars and other big-ticket items as well as held down housing growth.

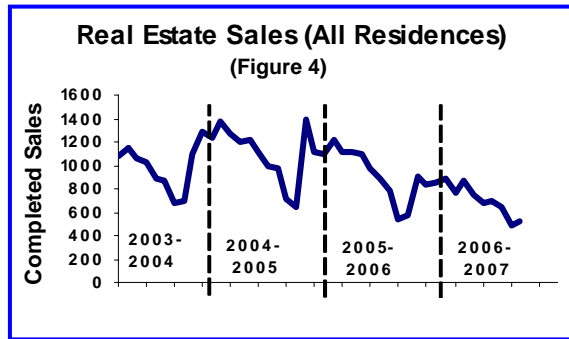
Despite these problems, current unemployment rates remain relatively low for the nation, State, and region lending support to the view that although reduced, modest State and national economic growth will continue. In addition, high tech, aerospace, defense and agriculture, all important sectors of the State economy, continue to experience slight gains.

2007–2008 ADOPTED BUDGET MESSAGE

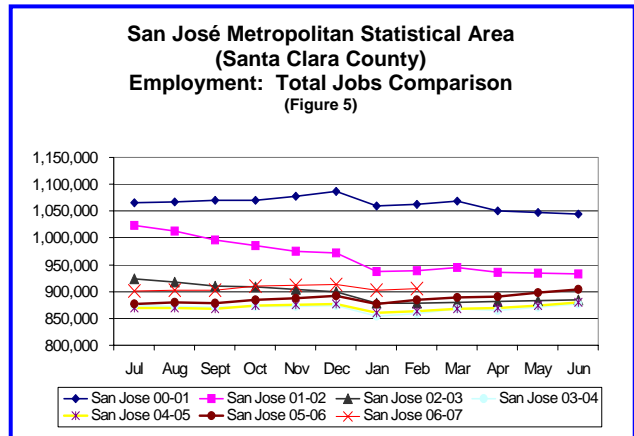
ECONOMIC PERFORMANCE (CONT'D.)

City of San José Outlook

As stated above, we believe the slowdown in the housing market being experienced nationally will also continue to affect this region. For San José, the slowing housing market can directly and negatively impact a number of the City's larger revenue sources, including Property Taxes and Construction and Conveyance Taxes. The slowdown in this area can also indirectly impact Sales Tax collections with the downward spending in construction materials and the reduction of consumer spending as the "wealth effect" associated with housing appreciation diminishes. As shown in the chart (Figure 4), the number of housing sales has dropped significantly in the last year.



While the housing market continues to present challenges, employment in the area has now stabilized and shown slight gains. Job growth in the last year included the addition of 6,100 jobs in the professional and business services sectors, continuing a two-year trend of year-over-year job gains. That expansion "is the most exciting and positive part of the news," said Stephen Levy, director of the Palo Alto-based Center for Continuing Study of the California Economy. "Professional services are where the job growth in the high-tech sector had been for a long time. It was a beginning sign that the high-tech sector overall and the venture capital sector overall was recovering."



While the job growth news is positive, it should be noted that the number of jobs in this region is still well below the peak of 1.1 million in December 2000 (Figure 5). Between this peak and the low point in January 2004, approximately 232,000 jobs were lost. Of this amount, only 51,400 (22%) have been added back, bringing the total number of jobs to 905,800.

In addition to the slight gains in job numbers, the local unemployment rate remains relatively low. The February unemployment rate for the San José area (unadjusted) was 4.6%, down slightly from 4.7% in January 2007 and below the February 2006 level of 5.0%. The February 2007 results for this area were slightly below the unadjusted figures for the State (5.2%) and the nation (4.9%). Staff will continue to carefully monitor employment levels for indicators of any economic slowdown from the modest growth levels assumed in this budget.

2007–2008 ADOPTED BUDGET MESSAGE

ECONOMIC PERFORMANCE (CONT'D.)

While modest economic growth was anticipated in formulating 2007-2008 revenue estimates, it is important to remember that when analyzing the City's General Fund revenues, only about half of the categories are tied directly to the performance of the economy. The remaining areas, while impacted by overall economic performance, are driven by other factors. For instance, growth in the Utility Tax and Franchise Fee categories is typically more heavily impacted by rate changes than economic growth. Collections from local, State and federal agencies are driven by the grant and reimbursement funding available. Because these revenue sources do not track directly with the performance of the economy, they act as a buffer during an economic slowdown, easing the impact of a drop in economically sensitive categories. Conversely, in times of economic strength, this can hold down the City's overall revenue growth.

BUDGET OVERVIEW

In the 2007-2008 Adopted Budget, the total net approved funding is \$3.7 billion for all City funds (General, Special, and Capital). This is \$732 million or 24.3% above the 2006–2007 Adopted Budget (Table 2 below). This growth is primarily due to a 45% increase in the Capital Funds, which was the result of a substantial increase in the Airport Capital Program. As noted above, the total number of positions increased by approximately 2.2%, to a total of 6,992.

2007–2008 ADOPTED BUDGET — ALL FUNDS			
(Table 2)			
	2006–2007 Adopted	2007–2008 Adopted	% Change
General Fund	\$ 956,829,159	\$ 1,031,779,500	7.8%
Special Funds	1,326,725,177	1,759,589,935	32.6 %
<Less: Operating Transfers>	(645,998,184)	(1,040,949,214)	61.1 %
Net Operating Funds	\$ 1,637,556,152	\$ 1,750,420,221	6.9%
Capital Funds	\$ 1,383,338,546	\$ 2,004,105,214	44.9%
<Less: Capital Transfers>	(10,388,000)	(12,828,000)	23.5%
Net Capital Funds	\$ 1,372,950,546	\$ 1,991,277,214	45.0%
Net Total	\$ 3,010,506,698	\$ 3,741,697,435	24.3%

The General Fund portion of the City's Budget will increase by 7.8% from 2006–2007, and totals \$1.03 billion.

2007–2008 ADOPTED BUDGET MESSAGE

BUDGET OVERVIEW (CONT'D.)

Budget Balancing Strategies

Our earliest projections for 2007-2008 predicted a \$19.9 million shortfall of which more than ten percent (\$2.7 million) resulted from the use of one-time dollars to balance the 2006-2007 Operating Budget. After five consecutive years of having to close significant funding gaps, cost management controls that once seemed extraordinary are now integrated into the day-to-day operation of the City. In October, the City Council established a *2007-2008 Future Deficit Reserve* by setting aside \$6.4 million of year-end fund balances during the final reconciliation of the 2005-2006 Budget. The Cost/Position Management Plan imposed in December yielded an additional \$4.2 million in savings for the fund and translated to a 0.5% reduction for the Public Safety CSA and a 1.5% reduction for all other CSAs. In February, the Five-Year Forecast revealed a slightly improved picture with the projected General Fund shortfall dropping to \$16.2 million, primarily the result of refining the expenditure forecast. Further refinement of revenue and expenditure projections explained in detail later in this document resulted in a final General Fund shortfall in this Adopted Budget of \$16 million.

In preparing the 2007-2008 Adopted Operating Budget, the Administration was guided by a set of principles and strategies contained in the City Manager's Budget Request and adopted by the Council in the Mayor's March Budget Message. This Adopted Budget also responded to the 67 directives contained in the Mayor's March Budget Message. Descriptions of how the budget responded to these referrals is found in Attachment B of this Message. A description of responses to City Auditor's budget related referrals is also included in this Message (Attachment C).

Two significant strategies reflected in this Adopted Budget were: 1) to focus reduction efforts on the elimination of vacancies; and, 2) to target the use of one-time funding to address the City's significant need to fund infrastructure maintenance backlogs. Also, consistent with recent practice, funding for community-based organizations was approved to be reduced by 4.7%, an amount equal to the average reduction for all non-public safety city service areas, partially offset by a 3% cost-of-living adjustment, for a net impact of 1.7%. The 2007-2008 Adopted Budget includes a combination of ongoing cost reductions, necessary fee increases, and the strategic use of reserves. The table below shows the matrix of balancing strategies and the dollars associated with each action.

2007-2008 ADOPTED BUDGET MESSAGE

BUDGET OVERVIEW (CONT'D.)

General Fund Budget Balancing Plan (Table 3)	
	In \$000s)
General Fund Shortfall	(16,004)
Fee Impact	(3,868)
TOTAL GENERAL FUND SHORTFALL	(19,872)
SOURCE OF FUNDS	
2007-2008 Future Deficit Reserve (one-time)	10,630
2006-2007 Fund Balance/Reserves	15,498
Development Fee Reserves/Fee Increases	6,137
Transfers from Other Funds	5,918
Miscellaneous	5,797
<i>Total Change in Source of Funds</i>	<i>43,980</i>
USE OF FUNDS	
Staffing & Non-Personal/Equipment Reductions	(9,013)
Funding Shifts	(2,428)
Use of Reserves (Committed Additions)	(2,150)
Technology & Capital Infrastructure Maintenance	18,365
Neighborhood Services Activities	3,906
New Facilities Operations & Maintenance	2,150
Economic Development Activities	1,950
City Council Direction (Mayor's Message)	2,654
Miscellaneous	8,674
<i>Total Change in Use of Funds</i>	<i>24,108</i>
Total Balancing Solutions	19,872

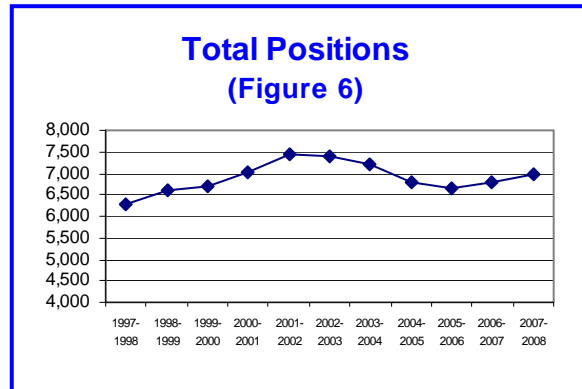
The stabilized economic picture ameliorated somewhat the pressure to make additional core service level reductions as a part of the 2007-2008 balancing plan, and provided the opportunity to strategically restore some positions. While that is good news, real reductions and employee impacts still resulted from this budget. As shown in the table below, approved changes from the Forecast Base Budget level in the Adopted Budget resulted in the elimination of 79 positions and the addition of 250 positions, for a net increase of 170 positions. The net change from last year, however, is only 148 positions, as 22 positions were eliminated in the Forecast Base Budget process as they were limit dated.

Changes in Position Count from Forecast to Adopted (Table 4)	
Reductions	(79.6)
Additions	250.1
Total	170.5

2007-2008 ADOPTED BUDGET MESSAGE

BUDGET OVERVIEW (CONT'D.)

Of the positions approved for elimination in the Adopted Budget, all but three should be easily accommodated, and efforts continue to find a redeployment opportunity for those three employees. As indicated earlier, the total number of positions will grow approximately 2.2% to 6,992 in 2007-2008. As Figure 6 demonstrates, even with the approved additions, the total employee count is still only roughly equivalent to our 2000-2001 employee count. Since 2002 when the harshest impact of the economic downturn hit the City budget, the net reduction of City positions totals 427, a decline of almost 6%.



As has been true in other recent budgets, the 2007-2008 Adopted Operating Budget was balanced with assumptions about things that have yet to occur, but which could have significant impacts on this budget. Among these are the rising costs of fuel and anticipated support from the Redevelopment Agency. While \$750,000 remains in a Fuel Reserve set aside last year to address rising costs, volatility in fuel costs make it impossible to accurately project whether this amount will suffice. Budget discussions were ongoing at the time this budget was approved with the San José Redevelopment Agency for additional funding for several important projects, including Watson Park, North San José traffic mitigation, and necessary improvements at our convention center. Another area of concern is the possible impact of police overtime costs as this proposal anticipates support from downtown interests in assuming some financial responsibility for overtime incurred there.

City Service Areas

The following section highlights the most significant actions approved for each of the City's six City Service Areas (CSA). A more detailed recitation of the changes for each CSA can be found in the detailed budget pages following this message.

Community and Economic Development

San José continues to make strides in creating an environment that attracts and sustains driving industries. As a result, revenue and job growth are increasing, particularly in the innovative industries of biotechnology, nanotechnology and clean technology. In the current fiscal year there were several successes worth noting, including BEA relocating into Downtown, Nanosolar expanding into Edenvale, and several companies moving into North San José. As noted earlier, the Council-approved 3-year goals included a focus on increasing San José's economic vitality, and the Adopted Budget includes a number of strategies to maintain fee programs at cost recovery, minimize service level impacts, and support necessary community and economic development initiatives.

2007–2008 ADOPTED BUDGET MESSAGE

BUDGET OVERVIEW (CONT'D.)

City Service Areas (Cont'd.)

Community and Economic Development (Cont'd.)

The City faced significant revenue shortfalls in the development-related fee programs. At the same time, the CSA departments faced the need both to prepare for compliance with newly adopted building codes and to make measurable improvements in the development process. Substantial increases in personnel costs such as retirement and health benefits have contributed to the fee program shortfalls. To close the gap and maintain service levels, this Adopted Budget will use \$3.2 million in fee reserves, impose modest fee increases, and make staffing adjustments. The adopted fee increases are for Building (5%), Planning (8%), Public Works (8.9%) and Fire (5%). The approved staff adjustments will shift three positions from the Public Works capital program into the fee program to help meet project processing targets, eliminate 4.5 positions in Planning (3.5) and Fire (1.0), redeploy staff from General Fund to Planning and Building Fee programs, and fill eight positions – four temporary inspectors and four permit specialists – to hold processing times steady while existing staff are being trained on new building codes. In addition, two Planning positions were authorized funding in the General Fund to improve the permitting process. Improving the permitting process has been a goal of the City for years. These positions will allow the City to complete a review of the permitting process to improve the average time to process permits and customer satisfaction.

This budget also contains key staffing additions to support essential community development services. Four temporary positions were approved to complete the Comprehensive General Plan Update as directed by the City Council in the 2007-2008 Mayor's March Budget Message. The Update will revise the current plan adopted more than 13 years ago and address the significant growth issues facing the City. The Housing Department was authorized two additional positions to manage its Asset Management and Housing Rehabilitation Programs, which provide community assistance for affordable and low-income housing. Both programs have seen increased activity due to declining resources for the Strong Neighborhoods Initiative and increased production of affordable housing units.

To facilitate the expansion and relocation of driving industry companies and retail businesses in San José, the City has added one-time funding of \$1.0 million to establish an Economic Incentive Fund. This Fund is intended to help create new jobs in San José by making incentives available for extraordinary and unanticipated development opportunities. Another \$300,000 has been added for a Shopping Center Improvement Pilot Program that will earmark funds for facade improvements such as enhancements to signs, awnings, and landscaping.

Special events and festivals bring substantial visibility and economic impact to the City, and this budget contains several actions that support existing venues or events as well as new programs. With a matching contribution from the Redevelopment Agency, this Adopted Budget will provide \$100,000 to hire a consultant to study appropriate uses for the Mexican Heritage Plaza and support the 2007 San José International Mariachi Festival. In its first year, the ZeroOne San José Festival had a local economic impact of \$9.0 million and furthered the City's goal of becoming a leading center for the creative intersection of art and technology. It also showcased the potential of the City

2007–2008 ADOPTED BUDGET MESSAGE

BUDGET OVERVIEW (CONT'D.)

City Service Areas (Cont'd.)

Community and Economic Development (Cont'd.)

Hall Rotunda as a centerpiece for lights and artwork. Consequently, this budget includes \$100,000 for a rotunda light projection program and \$200,000 in one-time funding for marketing and grant support for the next ZeroOne San José Festival.

These combined strategies – modest fee increases, strategic use of funding reserves, staff reductions and reallocations, funding reductions for non-public safety and obsolete programs, and investments in high return activities – will help the Community and Economic Development CSA achieve its short- and long-term goals related to economic growth and vitality for the City of San José.

Neighborhood Services

As noted earlier, the Council Priority Setting Session identified “*full funding for parks, pools, community centers and libraries, including maintenance, operation and development*” as one of its three-year goals, mirroring the recommendation of the Neighborhood Priority Setting Session a month earlier. In addition, the Neighborhood Leaders identified *Improve Proactive Code Enforcement* as one of their top priorities. In response to this clear direction, the Adopted Budget for the Neighborhood Services CSA attempts to achieve these goals by carefully allocating limited resources, minimizing service level impacts, and making strategic funding and staffing reductions or shifts.

With strong demand for neighborhood services, several new parks and recreational facilities will open in 2007-2008. To staff and maintain these facilities, 12.74 positions were approved to provide custodial and maintenance services (\$553,000). An additional 11 positions were added to address the maintenance needs of existing facilities, supported over the next three years by gradually drawing down on the \$7 million Enhanced Park Maintenance Reserve.

The single largest expenditure in this year’s Adopted Budget is \$5 million in funding needed to clean up the Watson Park site. This money will be allocated towards the remediation and restoration project currently underway. An additional \$2 million has been requested from the San José Redevelopment Agency (SJRA) to assist with the park restoration. The SJRA funding would go towards items such as open turf areas, a soccer bowl, a dog park, a play lot, and other amenities.

In support of the Community Center Re-Use Plan, this budget includes \$1.25 million (22.2 positions), with \$379,000 for the Northside Community Center (7.2 positions), to continue current services until a qualified non-profit operator is found. The 15 positions funded with the remaining \$870,000 will be shared between the Alma Senior Center, Hank Lopez Youth/Community Center, St. James Senior Center, and a contract/property management team for all Re-Use sites. Also, this budget will partially restore the Summer Aquatics program for the 2008 summer season, as directed by the City Council.

2007–2008 ADOPTED BUDGET MESSAGE

BUDGET OVERVIEW (CONT'D.)

City Service Areas (Cont'd.)

Neighborhood Services (Cont'd.)

While in this budget the Community Centers will see staff additions, this CSA also suffers significant reductions, as well, with 4.5 Library positions and 17.75 Parks, Recreation & Neighborhood Services (PRNS) positions approved for elimination. All of these have been vacant since at least July 2006. While this realizes nearly \$1.3 million in cost savings without impacting current service levels, it does preclude any increase in service levels to the community. Service areas impacted by these reductions include gang intervention, strategic support and some maintenance areas in PRNS, and direct customer service at branch libraries. Despite reductions, the CSA continues to evaluate, redesign and consolidate programs to meet community needs. The Work Experience Program will save \$103,000 by placing youth in City departments only in the summer session as opposed to year-round. PRNS will explore other strategies and partnerships with the Human Resources Department to continue workforce preparation services.

Proactive code enforcement to identify and resolve issues affecting neighborhood quality is clearly a priority for the City's communities. This budget added two positions (\$233,000) to provide enforcement and field inspections for certain blight conditions. With these two positions, it is estimated that 1,400 of these conditions such as junk vehicles stored in driveways, overgrown and dead weeds, and improper storage of appliances, could be identified and resolved during 2007-2008. Code Enforcement was also approved to increase both the Multiple Housing and Solid Waste Fees, by 4.3% and 8.7 % respectively. In addition to bringing these fee programs to full cost recovery, this action will enable the division to replace aging computers and printers and support overtime costs for the Neighborhood Clean-Up Program. For 2007-2008, the City was awarded a State grant to fund a Waste Tire Enforcement Program to insure compliance with the State codes and performance standards. As noted earlier, a reduction equal to the average reduction of all non-Public Safety CSAs was approved for community based organizations which in this CSA will equate to a \$99,000 reduction to groups such as the San José Conservation Corps, Youth Science Institute, and Outreach VTA.

In conclusion, this Adopted Budget focuses resources where the community desires them and avoids additional major impacts to service levels. The demand for neighborhood services will always be high and this budget attempts to strike a delicate balance between that demand and available resources so that it can continue to achieve its goals.

Public Safety

According to Community Budget Priority Setting Sessions, Public Safety remains a top priority among San José residents, and the City Council, likewise, has made clear its commitment to maintaining a strong Public Safety core. Police, Fire and the Office of Emergency Services have maximized limited resources to ensure overall safety, effectiveness and efficiency. However, increased demands from expanding service areas, a growing population, and prior budget reductions have impacted service. The Adopted Budget adds 15 sworn positions in the Police Department,

2007–2008 ADOPTED BUDGET MESSAGE

BUDGET OVERVIEW (CONT'D.)

City Service Areas (Cont'd.)

Public Safety (Cont'd.)

provides staffing for one new fire station, and continues temporary funding for an expanded San José Prepared! to recruit and train community volunteers.

As directed in the Mayor's June Budget Message, 15 new sworn police positions were approved (\$1.7 million) to help meet identified priorities in the Police Department with one of the 15 positions used to restore a Sergeant position dedicated to Crime Prevention programs, and three positions dedicated as motorcycle officers to replace the Neighborhood Automated Speed Compliance Program (NASCOP). These positions may result in some improvements in response time to Priority 1 calls, property crimes resolution and neighborhood traffic safety once they become street ready in 2009. Also included is the restoration of a police communications manager position, eliminated three years ago, to support the daily management, quality assurance, and training functions in the Communications Division. In the area of school safety staffing, the reallocation of less than two out of 41 vacant crossing guard positions to a School Safety Coordinator will support the restoration of crossing guard service to all but five of the intersections covered by the program. Since this position was eliminated in the 2006-2007 budget, service levels have declined because of backlogs in hiring, training, and supervision. In the area of Police overtime, the Administration added \$800,000 to the Police overtime budget in 2006-2007 to address downtown safety. In this budget, only half of that amount (\$400,000) will remain on an ongoing basis. Consistent with City Council direction in the Mayor's March Budget Message, the Administration will work with downtown interests where large overtime costs are incurred to mitigate the impact of this reduction.

Fire Station 34 (Berryessa) comes online in October 27 and this budget assumed that during 2007-2008 personnel from Station 2 (Alum Rock) would staff Station 34 during the Station 2 construction. With Station 2 construction delayed due to changes in the project's scope, the Fire Department is exploring alternatives to staff the new Fire Station 34 during 2007-2008. Funding is included for an additional Firefighter Recruitment Academy (\$470,000), so that the new fire station will be fully staffed with dedicated personnel beginning July 2008. The Department will test an alternative EMS response configuration in Alum Rock and Berryessa that if successful could significantly improve EMS and fire suppression delivery efficiency. A new Battalion Chief will also be added to oversee the Fire Department's special operations training program for airline emergencies, confined space rescues, low angle rescue and high rise rescue. The \$176,000 cost is funded with a corresponding reduction in overtime for special operations.

Transportation and Aviation

As noted earlier, the telephone poll conducted as part of the new community budget prioritization process rated traffic congestion, street maintenance and pothole repair as leading issues of public concern. While the sustained economic downturn has challenged the departments tasked with providing safe, secure and efficient surface and air transportation systems, they continue to pursue a series of innovative and aggressive initiatives to advance San José's livability and economic vitality.

2007–2008 ADOPTED BUDGET MESSAGE

BUDGET OVERVIEW (CONT'D.)

City Service Areas (Cont'd.)

Transportation and Aviation (Cont'd.)

The surface transportation system – some 2,300 miles of streets – has been significantly underfunded over the last five years, despite an almost 12% growth in infrastructure assets, such as pavement, lighting, and landscaping. This has exacerbated the City's estimated \$459 million one-time street infrastructure maintenance backlog and resulted in a \$20-30 million annual shortfall. Given the need in this area, the adopted budget does add seven Capital-funded positions in the Pavement Maintenance program and designates \$5 million in one-time funds to address the most immediate infrastructure maintenance needs.

Adopted Budget impacts are reflected in the elimination of such programs as sidewalk repair grants and NASCOP (Neighborhood Automated Speed Compliance Program), which in turn eliminates four filled and one vacant position. As discussed in the Public Safety section, NASCOP is replaced with three new motorcycle officer positions that will be dedicated to neighborhood traffic safety. Similarly, the conversion of \$1.0 million from ongoing to one-time funding was approved, which will eliminate ten tree maintenance positions at the end of 2007-2008, resulting in the shift of funding for Street Tree Maintenance to property owners starting in 2008-2009. The elimination of the remaining Sidewalk Repair Program, except for hardship cases, will save \$560,000 on an ongoing basis.

Ten capital-funded positions will support the growing workload associated with the North San José Development and local transportation projects and ensure active City participation in the design and delivery of regional transportation projects, such as the BART extension, Route 101 improvements, and the 280/880/Stevens Creek upgrade. An example of a strategic investment aimed at developing long-term solutions to our immediate challenges is the City's ongoing Strategic Transportation Maintenance Master Plan effort. This community engagement process effort will confirm needs, community priorities and funding alternatives – and is critical to identifying community support for alternative funding options that will be needed for sustainable maintenance of transportation assets.

The Airport has achieved remarkable success with the approval and ongoing delivery of the \$1.5 billion Terminal Area Improvement Program (TAIP), approval of the new Airline Signatory Agreement, and completion of major airfield reconstruction projects. Implementation will continue in 2007-2008. However, the air transportation system continues to face a sustained economic challenge, typified by passenger traffic levels that remain roughly 20% below the peak levels of 2000-2001. In 2007-2008, a modest 2.5% growth rate is projected.

Nonetheless, the cumulative affect of required resource reductions has resulted in significant impacts to customer service levels and deferred maintenance. Recognizing the importance of reversing this trend, airlines have agreed to a multi-year rate increase of approximately 125%, of which 70% will take place in 2007-2008. Overall rates and charges are being compared with other airports, and adjustments will be recommended where justified. New concession contracts for a variety of services, including advertisement, food and beverage, retail, rental cars, luggage carts, and business service centers are being pursued as opportunities to raise revenues as well as bring

2007–2008 ADOPTED BUDGET MESSAGE

BUDGET OVERVIEW (CONT'D.)

City Service Areas (Cont'd.)

Transportation and Aviation (Cont'd.)

improvements to customer service. Uses of the former FMC property (Airport West) will be explored as a key resource for developing the Airport's west side, with the potential reconfiguration or relocation of parking to provide land for enhanced cargo or general aviation use. This can generate new revenue which can be devoted to customer service and deferred maintenance.

For both surface and air transportation systems, the 2007-2008 Adopted Budget reflects the City's continued commitment to fiscal management by scaling back certain services as needed to match resource limitations. Simultaneously, however, this CSA is also moving aggressively to pursue enhanced revenues as well as legislative and grant programs wherever viable.

Environmental and Utility Services

The City's large utilities, which are based in this CSA, have a national reputation for providing proactive and innovative environmental services. Each utility is based on an enterprise model that values financial sustainability and cost recovery, stakeholder involvement, and regional partnerships with agencies in the public and private sectors.

Recycle Plus, the City's solid waste utility, implemented new service agreements with several companies this July that provide garbage, recycling and yard trimming services plus street sweeping. The new agreements, signed after an extensive competitive bid process, will cost the City and its ratepayers approximately \$15 million more than last year while three continuing contracts will add another \$1 million in increased costs. Although partially offset by a \$2.1 million reduction in non-contractual expenditures, a 28% rate increase for single-family households and a 4% increase for multi-family households was approved to generate \$18 million additional revenues and maintain cost recovery.

Chief among the water-related utilities is the *San José/Santa Clara Water Pollution Control Plant* which, coupled with the City's *Sanitary Sewer System*, protects public health and the environment by transporting wastewater from homes and commerce through some 2,200 miles of pipelines and a network of pump stations and facilities to the Plant for treatment and discharge. Similarly, the *Storm Sewer System* protects homes and commerce from flooding by diverting runoff flows into local waterways through another massive network of pipelines, pump stations, and outfalls.

Portions of these three sewer systems, however, need major repairs or replacement. This year the Plant celebrated its 50th Anniversary with an outstanding record of awards and innovations. However, the longevity we celebrated this year is a double-edged sword for the future. While a total of \$185 million in Water Pollution Control Plant construction projects are included in the 2008-2012 Adopted Budget, a recent engineering report, for example, identified \$1 billion in infrastructure needs at the Plant over the next 15 years. To address this challenge, the transfers to the capital funds are being increased by approximately \$25 million from 2006-2007 levels. Significant projects

2007–2008 ADOPTED BUDGET MESSAGE

BUDGET OVERVIEW (CONT'D.)

City Service Areas (Cont'd.)

Environmental and Utility Services (Cont'd.)

in the five-year Plant CIP include electrical system reliability (\$58 million), and piping and equipment related to the Plant's digester system (\$20.4 million). To assist in preventing neighborhood sewer backups, the replacement of two specialized trucks for cleaning sanitary sewers was approved in this budget.

Major projects in the five-year Storm Sewer CIP include drainage improvements in Alviso and continued storm pump station rehabilitations. To fund these capital improvements as well as additional staffing for improved infrastructure management, preventive maintenance and watershed enforcement projects among others, residential rate increases of up to 9% for 2007-2008 in both the Sewer Service and Use Charge Fund and Storm Sewer Operating Fund were approved. An increase of up to 10% was approved for commercial, industrial and institutional users of the storm water system. Because rates paid by commercial, industrial and institutional users of the sanitary system vary based on their chemical composition and other factors, the approved increases will vary from 3% up to 15%. In April, the City issued public notices to alert the public to these critical needs, the proposed rate increases for 2007-2008, and the potential for additional increases the next two years as well.

The cost of purchasing potable water from two local wholesalers, which are themselves addressing infrastructure issues, drove the need for rate increases of up to 7.5% approved in this budget for all customers served by the *Municipal Water System*. Other factors behind the approved increase include rising energy costs necessary to operate water wells and pump water to higher elevations in certain areas; rising chemical costs for treating drinking water; higher fuel costs; ongoing infrastructure maintenance costs; labor-related costs, and compliance with more stringent state and federal water quality regulations. Likewise, increases of up to 14 cents per hundred cubic feet were approved for water deliveries from *South Bay Water Recycling*, which is used for industrial processes and turf or agricultural irrigation by 180 San José customers.

Finally, two positions were approved to further the City Council's aggressive support for green building and LEED goals and expand the City's Energy Efficiency Program. With one position funded by PG&E energy rebate dollars, the net General Fund impact will be \$201,000 and will help San José achieve significant cost savings through better management of natural resources.

Strategic Support

Reductions in four of the past five years have had a serious cumulative impact on services provided by the Strategic Support CSA. Cuts to staffing and reduced resources have limited each department's ability to deliver key services to City residents. This budget restored some of the most critical needs.

As noted earlier, fully one-third of the City's workforce will be eligible to retire within the next five years and a workforce planning effort is already underway meet that challenge. Three temporary

2007–2008 ADOPTED BUDGET MESSAGE

BUDGET OVERVIEW (CONT'D.)

City Service Areas (Cont'd.)

Strategic Support (Cont'd.)

positions, which were added at the 2006-2007 Mid-Year Budget Review, were approved to be continued with a limit date of June 30, 2008. These positions will allow permanent staff to focus on recruitment, classification and compensation activities to fill vacancies faster at the cost of \$309,000.

The City of San José will continue to ‘contract-in’ City services when possible and economically feasible. This budget will bring a portion of its plumbing and electrical services in-house, providing a higher level of service with a \$169,000 reduction of costs.

To meet the increasing complex requirements of the Americans with Disabilities Acts (ADA) the Adopted Budget adds a full time ADA coordinator (\$142,000) to address accessibility issues in City-owned facilities. In addition, a temporary Senior Analyst position has been converted to permanent status (\$126,000) to coordinate the Return to Work Program, ensuring the City’s compliance with requirements to provide reasonable accommodations to injured employees.

In July, 2006, the Integrated Billing System (previously called C-UBS) “went live.” In support of this major effort, the Customer Service and Recycle Plus call centers were consolidated and shifted to the Information Technology Department. During 2006-2007, 19 temporary positions were added to address Customer Contact Center performance issues. To ensure that improved service levels continue, funding of \$1.3 million has been added to make 11 of those positions permanent and continue eight as limit-dated positions. Also included in this budget is the addition of 8 Finance and Information Technology positions (\$946,000) to address critical financial & technology needs such as account maintenance & technical oversight to continue full implementation of Phase I of this project.

The Revenue Collections Strategic Plan pilot program instituted in 2006-2007 will continue with the addition of five support staff positions, three of which are temporary. With the addition of these positions, investigators will be free to focus on collection efforts rather than administrative duties. The \$1.1 million generated by the new collection program will more than offset staffing costs.

In order for Public Works to effectively support the multi-year construction of the Airport Terminal Area Improvement Project, a total of 9 new positions, ranging from accountants to landscape architects, were added. The addition of three other positions to Public Works was approved in this budget, two Real Property Agents (\$205,000) and a Contract Compliance Specialist (\$89,000.) The Real Property Agents will support Parks and Transportation property-related activities. This includes sports fields master plan, aquatics study and facility re-use, as well as Measure A Highway projects and BART. The positions will offer increased support to property transfers, right of way issues and regional transportation projects such as Measure A Highway projects, BART and the Guadalupe Corridor. The Contract Compliance Specialist, which will be fully supported by the Redevelopment Agency, will monitor Agency contracts for compliance with Prevailing and Living Wage policies.

2007–2008 ADOPTED BUDGET MESSAGE

BUDGET OVERVIEW (CONT'D.)

City Service Areas (Cont'd.)

Strategic Support (Cont'd.)

Funding to support a major update of the City's Standard Specifications and Details for Construction Projects (\$350,000) was approved. This project is expected to save time and money for staff, contractors and consultants. The last update was in 1992. The current plan leads staff to devote a significant amount of time to developing 'workaround' strategies when existing plans and specifications are outdated. This slows the process down for everyone. The cost of the effort is expected to be repaid to the General Fund over the course of ten years by the Public Works Program Support Fund and the Public Works Development Fee Program.

In 2006-2007, the City invested much needed capital in information technology, assessing our current business applications and systems. This will continue in 2007-2008 with an investment of \$5.1 million. The funds will be used for various technology uses such as technology hardware replacement, establishing a test lab, hardware for GIS applications, upgrades to the CAD system and assistance/training and professional contractual services for the completion of legacy system migration. Lastly, the remaining \$2 million from the 2006-2007 Technology Reserve was approved to be used to replace existing network equipment at the Police Department Campus. This is a one-time cost and will address the accumulating problems with the Department's current leased system.

The synchronization of the Public Works Sanitary Sewer Geographic Information Systems (GIS) and the Department of Transportation's Infrastructure Management System (IMS), a \$130,000 project, will give maintenance staff access to the latest data and route maintenance crews more efficiently. This saves both money and time, resulting in faster completion of repair projects.

The Adopted Budget also includes a one-time \$1.3 million allocation for a secondary cooling system for the City Hall Network Operations Center. This will provide protection for equipment housed in the Operations Center in the event of failure of the primary cooling system.

This budget reduces the Vehicle Maintenance and Operations Fund Ending Fund Balance by \$250,000. In addition, a \$150,000 reduction to the \$1.75 million allocation for General Fleet Replacement was approved. The remaining \$1.6 million represents a significant increase over most recent years when spending on non-public safety vehicles was frozen. Replacing aging fleet vehicles saves money and benefits San José's commitment to a green economy.

The City of San José is committed to recognizing its employees, as well as generating home-grown innovations and creative ways to deliver service. The organization's ability to continue to achieve high performance levels in the face of five years of reductions is a testament to the continued hard work and dedication of our workers. With the GASB 43/45 induced focus on retirement health costs raising understandable concerns in the workforce, we are committed to engaging employees in meaningful discussions about how to address this issue, as well as in identifying ideas to improve operations and reduce costs. In addition to meeting with the City Labor Alliance, holding facilitated employee forums, and establishing a suggestion box program, we will be exploring a gain sharing program and having employees lead benchmarking trips to other jurisdictions. While some

2007–2008 ADOPTED BUDGET MESSAGE

BUDGET OVERVIEW (CONT'D.)

City Service Areas (Cont'd.)

Strategic Support (Cont'd.)

employees may feel burdened by yet more reductions, it is important to note that in the Adopted Budget new positions actually outnumber approved reductions. The employee driven Employee Values Project identified recognition as one of our core values. The Administration embraces this with the recommendation in the 2007-2008 Adopted Operating Budget to create a \$100,000 city-wide Innovation Fund. The funds will be used to implement innovative ideas from City employees for increasing revenues, reducing costs or improving service delivery. An Innovation Team, comprised of representatives from Human Resources, Information Technology, Finance and the Budget Office, will oversee the program.

For Strategic Support, the 2007-2008 budget continues the steady restoration of key services and the investment in improving how we do business.

CAPITAL BUDGET OVERVIEW

The capital investments planned over the next five years are substantial with a 2007-2008 Adopted Capital Budget of \$2.0 billion and a 2008-2012 Adopted Capital Improvement Plan (CIP) of \$3.12 billion. This marks the seventh consecutive year that the annual capital budget exceeds \$1 billion and that the five-year CIP is in the multi-billion dollar range. Based on the timing of investments, primarily related to the Library, Public Safety, and Parks and Community Facilities General Obligation Bond projects and Airport improvements, the 2007-2008 Adopted Capital Budget reflects an increase of 48% from the 2006-2007 Adopted Capital Budget of \$1.38 billion and the 2008-2012 CIP is 8% higher than the 2007-2011 Adopted CIP of \$2.89 billion.

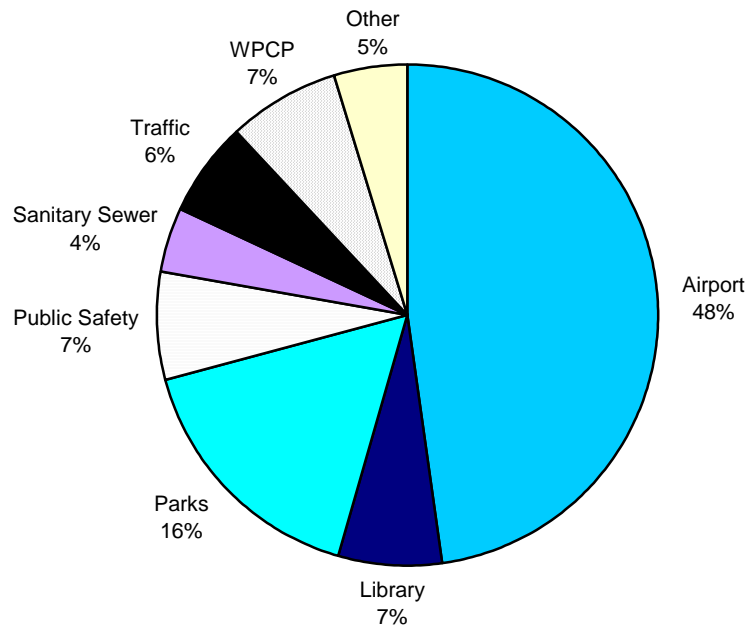
The City is now in the second half of the *Decade of Investment*, which is transforming much of the City's infrastructure. Major improvements continue in the City's parks, community centers, libraries, and public safety facilities, primarily as a result of voter-approved bond measures that will generate a total of \$599 million for these purposes. The expansion of the Airport will deliver a facility that meets the needs of both customers and the airlines in a cost effective manner. Substantial investments in the City's utility infrastructure are also underway, designed to ensure the continued safe and efficient operation of these facilities and the capacity to address future growth.

2007-2008 ADOPTED BUDGET MESSAGE

CAPITAL BUDGET OVERVIEW (CONT'D.)

The CIP and the one-year Capital Budget is comprised of 15 capital programs. Following is a breakdown of the major programs in the 2007-2008 Adopted Capital Budget:

2007-2008 Adopted Capital Budget



Green Building Implementation

In an effort to position the City as a leader in sustainable design and set a community standard of environmental, economic, and social stewardship, the City Council adopted revisions to the City's Green Building Policy in March 2007. This new policy requires that certain new building projects achieve a minimum Leadership in Energy and Environmental Design (LEED) Silver rating as designated by the U.S. Green Building Council (USGBC), with a USGBC LEED Gold or Platinum as the new goal.

In May 2007, staff presented a cost-benefit analysis to the City Council (Manager's Budget Addendum #9) for projects currently underway or projects that could potentially achieve a USGBC LEED Silver certification or higher rating. The City Council directed staff to incorporate green building improvements at the South San José Police Substation, Bascom Branch Library and Community Center, Seventrees Branch Library, and the Solari Community Center projects that would aim to achieve a higher USGBC LEED Silver certification level. Funding was approved in this 2008-2012 CIP for these facilities to target this level of certification.

2007–2008 ADOPTED BUDGET MESSAGE

CAPITAL BUDGET OVERVIEW (CONT'D.)

The table below summarizes projects that were identified in March 2007 that could potentially achieve LEED Certified or Silver ratings and their associated USGBC LEED certification level assumed in the 2008-2012 Adopted CIP.

Project	USGBC LEED
Bascom Branch Library and Community Center	Silver
Solari Community Center and Seventrees Branch Library	Silver
South San José Police Substation	Silver
Happy Hollow Park and Zoo Renovation	Certified
Mayfair Community Center – Satellite	Certified
North Concourse – Airport	Certified
Roosevelt Community Center	Certified
Terminal B – Airport	Certified
East San José Carnegie Branch Library	Other
Educational Park Branch Library	Other
Fire Station 36	Other
Santa Teresa Branch Library	Other
Southeast Branch Library	Other

Unmet Infrastructure Needs

As a result of the local economic climate, the City has faced severe General Fund shortfalls over the past five years, requiring significant staff and resource reductions, as well as the deferral of a number of capital improvement and maintenance projects. These resource reductions occurred in the face of the City's *Decade of Investment* where the City has been able to address a number of significant infrastructure needs in the areas of parks, libraries, and public safety. However, there are other major infrastructure categories where the available funding for capital improvements has been insufficient to address critical needs, as reported to the City Council in February 2007. A large backlog of unmet infrastructure needs exists in areas such as transportation, information technology, vehicle replacement, and maintenance at City parks and building facilities which, if addressed, the General Fund would have to be the sole or partial funding source. The total backlog of one-time needs has been estimated at approximately \$445 million, with the annual ongoing funding requirement to keep that infrastructure maintained estimated at approximately \$20-25 million.

In addition to these outstanding items for which the General Fund would need to be the primary or partial funding source, significant needs remain for the City's various Special Fund programs. For example, as part of an Infrastructure Condition Assessment prepared for the Environmental Services Department in February 2007, critical replacement requirements for the Water Pollution Control Plant totaled \$249.4 million in the first five years and \$996.8 million of total capital infrastructure needs. In this Adopted CIP, a total of \$184.9 million is allocated toward construction projects at the Plant in order to begin to address these infrastructure needs. Funding for a Plant

2007-2008 ADOPTED BUDGET MESSAGE

CAPITAL BUDGET OVERVIEW (CONT'D.)

Unmet Infrastructure Needs (Cont'd.)

Master Plan (\$6.0 million) is included in the five-year CIP which would provide the City with a phased program of recommended wastewater treatment facilities and management programs to accommodate planned growth and meet existing and future regulatory requirements.

Transportation infrastructure needs, previously estimated at \$391.5 million, are currently projected at \$459 million due to continued system deterioration, increased contractual materials and labor costs, and new categories such as missing street trees and roadway markings not previously addressed. Similar to last year, the Adopted CIP includes a one-time \$4.8 million allocation from the General Fund to continue to address the backlog of street infrastructure maintenance.

A detailed work plan for the reduction of deferred maintenance and infrastructure backlog for the City's facilities is currently underway. In fall 2007, staff will present to the City Council a compilation of existing condition assessments and recommendations for proceeding with strategy development.

General Fund Operating Budget Impact

With the large number of new and expanded facilities, primarily as a result of the general obligation bond funded projects coming on-line, substantial General Fund operating and maintenance costs are projected through the five-year term represented in the Adopted CIP. The 2007-2008 Adopted Operating Budget includes funding of \$553,000, partially offset by additional revenues (\$135,000), to operate new parks and library facilities that are scheduled to be operational next year. In addition, funding was approved to start training fire personnel that will be necessary to staff Fire Station 34 with a new engine company in 2008-2009 (2007-2008 assumes the relocation of a company from Station 2). The required level of investment is projected to increase significantly over the next five years as the remaining bond-funded parks, libraries, and public safety facilities open.

As detailed below, General Fund operating costs for facilities included in the 2008-2012 CIP will total \$4.0 million in 2008-2009 and climb to \$15.3 million by 2011-2012. (Operating budget adjustments for facilities scheduled to come on-line in 2007-2008 have been incorporated into the Adopted Operating Budget.)

2007-2008 ADOPTED BUDGET MESSAGE

CAPITAL BUDGET OVERVIEW (CONT'D.)

General Fund Operating Budget Impact (Cont'd.)

Projected General Fund Operating and Maintenance Costs

<u>Project Title</u>	<u>2008-2009</u>	<u>2009-2010</u>	<u>2010-2011</u>	<u>2011-2012</u>
Fire Facilities	\$ 2,388,000	\$ 2,769,000	\$ 3,234,000	\$ 3,438,000
Library Facilities	372,000	3,678,000	5,954,000	6,370,000
Parks Facilities	684,000	1,637,000	3,513,000	4,341,000
Parks Facilities-Other Agencies	13,000	146,000	169,000	182,000
Police Facilities	498,000	875,000	913,000	916,000
Traffic Projects	53,000	74,000	78,000	80,000
Traffic Projects-Other Agencies	52,000	55,000	57,000	61,000
Total	\$ 4,060,000	\$ 9,234,000	\$ 13,918,000	\$ 15,388,000

In the last few years, several strategies were implemented to defer or reduce operating and maintenance costs, with a particular focus on the General Fund. These efforts included deferring the completion date for capital projects, using alternative staffing models, moderate reductions in the size of facilities, the development of joint library and community center facilities, and the implementation of capital projects that would reduce costs, such as energy efficient traffic signals.

Given the extent of the actions that have already been taken and the competing trend of rising construction costs, the Adopted CIP does not recommend significant additional project deferrals at this time. The program focus is to deliver on the commitments to the public in regards to completing the park, library, and public safety projects that were approved by the voters and funded by General Obligation Bonds. Therefore, the additional costs associated with these facilities are being factored into the General Fund Five-Year Forecast. It should be noted, however, that the most recent Five-Year Forecast issued in February 2007 again projects General Fund deficits in each year. The City will thus continue to face very tough choices to address these deficits while planning to find the additional funding necessary to operate the new facilities. The City will continue to analyze the overall complement of facilities and resources available to the public when determining future potential budget actions that may be necessary to balance the General Fund budget. In addition, with the recent adoption of the revised Green Building Policy, staff will continue to explore further energy saving opportunities for new facilities scheduled to come online and potential investments in energy saving improvements at existing facilities.

Capital Program Overview by City Service Area

As a framework for its performance-based budget, each of the 15 capital programs has been aligned to one of the six CSAs. Following is a brief discussion of significant issues and projects included in the Adopted CIP, presented by CSA.

2007–2008 ADOPTED BUDGET MESSAGE

CAPITAL BUDGET OVERVIEW (CONT'D.)

Capital Program Overview by City Service Area (Cont'd.)

Community and Economic Development CSA

The Community and Economic Development CSA includes the Developer Assisted Projects Capital Program. This program reimburses residential developers for construction of major City streets and encourages the undergrounding of existing overhead utilities. Reimbursements to developers are scheduled for the Communications Hill and the Dairy Hill projects. In the Underground Utility Program, projects in the following areas are programmed in the CIP: Stevens Creek – Calvert to Stern; Market/Almaden – Reed Street, Pierce Avenue, Willows Avenue, Balbach Street, and Viola Avenue; Camden Avenue – Bascom to Leigh; Evergreen Park – San Felipe Road to Yerba Buena; Park/Naglee – Naglee to Shasta Avenues; and Park to Bascom Avenues.

Environmental and Utility Services CSA

The Environmental and Utility Services CSA includes the Sanitary Sewer System, Storm Sewer System, Water Pollution Control, and Water Utility Capital Programs.

Sanitary Sewer System Capital Program: The objectives of this capital program are to rehabilitate large diameter sanitary sewers; reduce water inflow and infiltration in sanitary sewers; improve local neighborhood sewers; extend sanitary sewers to new development areas; and develop a city-wide sanitary sewer master plan. Major projects in the Adopted CIP include the Phases VA and VB of the Edenvale Sanitary Sewer Supplement, Phases VB and VIB of the 84-Inch RCP Interceptor; and Phases VIA and VIB of the 60-Inch Brick Interceptor. In addition, several neighborhood sewer improvement projects are programmed, including Almaden Road, Willow Glen, Alum Rock, Julian-Sunol, and Union/Almaden Oak.

Storm Sewer System Capital Improvement Program: The purpose of the storm sewer system is to collect storm water and convey it to nearby creeks and rivers. In conjunction with the Sanitary Sewer System Capital Improvement Program, the Storm Sewer System CIP will remove cross-connections between the two systems.

In accordance with the City's General Plan, the goal of the Storm Sewer System CIP is to reduce the risk of drainage-related surface damage and protect the quality of storm water runoff. Rate increases of 9.0% annually are assumed in each of the five years of the CIP. This would build in predictable, measured adjustments in service charges to continue a modest investment in the capital infrastructure and ensure the fiscal health of the Storm Sewer Operating and Capital Funds. With the limited resources currently available, the major storm drainage improvement projects programmed in the Adopted CIP are as follows: Albany-Kiely Storm Drainage Improvement, Phases III and IV; Alviso Storm Rehabilitation; Chateau Drive Storm Drain Improvement, Phases I and II; Outfall Rehabilitation; Ross – Guadalupe Storm Drain Improvements; Storm Drainage Improvements – Special Corridors; and Storm Pump Station Rehabilitation and Replacements.

2007–2008 ADOPTED BUDGET MESSAGE

CAPITAL BUDGET OVERVIEW (CONT'D.)

Capital Program Overview by City Service Area (Cont'd.)

Environmental and Utility Services CSA (Cont'd.)

Water Pollution Control Capital Program: The San José/Santa Clara Water Pollution Control Plant (WPCP) is a regional wastewater treatment facility serving eight tributary sewage collection agencies, including municipalities and sanitary sewer districts. This CIP focuses on preserving the WPCP infrastructure and capacity improvement projects. In order to maintain the program represented in this document, a three year 9% annual Sewer Service and Use Charge rate increase strategy has been assumed with additional modest increases beyond those years. This increase will help improve Plant reliability and begin to address critical infrastructure needs identified by a recent infrastructure condition assessment study.



Water Pollution Control Plant – Digester Tanks

The Adopted CIP includes funding to complete the \$88 million Water Pollution Control Plant Reliability Improvements project, which was awarded in 2005 and is scheduled to be completed in October 2007, ten months ahead of schedule. This project will improve the Plant's ability to handle wet weather flows, improve the reliability of several of the Plant's critical systems; and look at ways to improve the reliability and efficiency of producing recycled water, as well as water discharge to the bay. The Plant Electrical Reliability project has \$58.0 million programmed in the CIP for major upgrades and replacements of electrical systems.

Water Utility System Capital Program: The San José Municipal Water System provides water utility service to approximately 26,500 customers (approximately 104,000 residents) in five areas within the City of San José: Evergreen, North San José, Alviso, Edenvale, and Coyote Valley. Major projects in the Adopted CIP include: rehabilitation and replacement projects (Bon Bon Drive Main Replacement, Castleton Drive Main Replacement, Norwood Pump Station Replacement, and Villa Vista Reservoir Rehabilitation); System Development projects designed to provide more capacity or better coverage (Nortech Parkway East Loop Main and the North First Street Parallel Main); and recurring projects to maintain the system and address system growth (System Maintenance/Repairs, Infrastructure Improvements, Meter Installations and Service Installations).

2007–2008 ADOPTED BUDGET MESSAGE

CAPITAL BUDGET OVERVIEW (CONT'D.)

Capital Program Overview by City Service Area (Cont'd.)

Neighborhood Services CSA

The Neighborhood Services CSA includes the Library and Parks and Community Facilities Development Capital Programs.

Library Capital Program: The City's library system is undergoing a major transformation as a result of the November 2000 voter-approved bond measure that approved the issuance of \$212 million in general obligation bonds to improve the branch library system over a ten year period. This bond measure provided funding for the reconstruction or replacement of 14 of the 17 existing branches and the construction of six new branches in unserved neighborhoods. Over the course of the 2008-2012 Adopted CIP, the build-out will be completed with the opening of three new branches and completion of eight expansion/relocation projects. In the 2008-2012 CIP, upward adjustments of \$7.1

million to the budgets for the Library Bond projects were approved to address recent cost escalation. These increases will be mitigated through allocations of interest from bond sales and the use of the Bond Contingency Reserve. Listed below are the new and renovated branches that will be completed over this five-year period.

New Branches

- | | | |
|----------|------------|-------------|
| - Bascom | - Edenvale | - Southeast |
|----------|------------|-------------|

Renovated Branches

- | | | |
|-----------------|-------------------|---------------|
| - Calabazas | - Joyce Ellington | - Severtrees |
| - East San José | - Pearl | - Willow Glen |
| - Educational | - Santa Teresa | |

Parks and Community Facilities Development Capital Program: The Parks and Community Facilities Development Capital Program plans for and implements the acquisition, development, and protection of parks, recreation facilities, and open space to maintain a high quality of life in San José. The program is managed through the use of 17 funds, including 10 Council District funds, a City-wide fund for city-wide/regional facilities, a Parks Bond Fund, and five special purpose funds, as well as contributions from the General Fund and the San José Redevelopment Agency.



Trail along Wenlock Drive

2007–2008 ADOPTED BUDGET MESSAGE

CAPITAL BUDGET OVERVIEW (CONT'D.)

Capital Program Overview by City Service Area (Cont'd.)

Neighborhood Services CSA (Cont'd.)

The Safe Neighborhood Parks and Recreation Bond (Measure P) was approved by voters in November 2000, which provided funding of \$228 million for improvements. This bond program provides funding over a 10-year period to renovate 95 neighborhood park play areas, renovate six community centers, add three new community centers, renovate 28 park restrooms, build two new sports complexes, expand the City's trail system at four locations, and enhance four regional park facilities, including improvements and renovations at Happy Hollow Park and Zoo. In order to address the rising cost of construction, the 2007-2011 Adopted CIP incorporated considerable funding increases including \$15.5 million for Parks and Recreation Bond Project (Parks Bond) Fund projects and supplemental funding of \$18.3 million from Construction and Conveyance Tax Funds, the Park Trust Fund, and the Redevelopment Agency. In addition, funding augmentations were approved by the City Council in 2006-2007 for the Bascom (February 2007), Mayfair (March 2007) and Roosevelt (April 2007) Community Centers. The remaining projects included in this Adopted CIP reflect increases of \$1.1 million in the Parks Bond Fund and supplemental funding of \$3.5 million for the Happy Hollow Park and Zoo renovation (\$2.6 million) and for green building improvements at Solari and Bascom Community Centers (\$943,000). In order to offset this increase, the 2008-2012 Adopted CIP assumes additional interest earnings in the Parks Bond Fund (\$2.9 million) compared to the estimates assumed in the 2007-2011 Adopted CIP for reasons cited in the previous section. The Adopted CIP sets aside unallocated funding of \$2.8 million to ensure sufficient funding is available for project awards and expenditures that are scheduled for the latter years of the program.

Listed below are the Parks Bond Projects in the 2008-2012 CIP:

- Almaden Lake Park
- Bascom Community Center
- Coyote Creek Trail
(Tully Road to Los Lagos Golf Course)
- Guadalupe River Trail Reach VI
(Woz Way to Willow Street)
- Happy Hollow Park and Zoo
- Mayfair Community Center
- Roosevelt Community Center
- Soccer Complex
- Softball Complex
- Solari Community Center



The Parks, Recreation and Neighborhood Services Department, with the assistance of the Finance Department, completed a thorough reconciliation of the Park Trust Fund. The 2008-2012 CIP incorporates that reconciliation and includes funding of \$79.3 million, which has been allocated to various projects and reserves.

2007–2008 ADOPTED BUDGET MESSAGE

CAPITAL BUDGET OVERVIEW (CONT'D.)

Capital Program Overview by City Service Area (Cont'd.)

Public Safety CSA

The Public Safety Bond (Measure O) was approved by voters in March 2002 which provided funding of \$159 million for a driver training facility, upgraded emergency communications and dispatch facilities, an improved fire training center, a new police substation, new community policing centers, new and relocated fire stations, and a number of fire station upgrades and remodels. In this Adopted CIP, total bond-funded fire station recommended funding increases amounted to \$10.7 million, while increases to the Driver Safety Training Center and South San José Police Substation total \$4.1 million. In order to address these increases, additional interest earnings (\$2.5 million), sale of land (\$600,000), and use of contingency reserves were approved as part of this budget. Additionally, several changes to the implementation of bond-funded projects are included in order to fund the bond projects in the CIP, given the local construction climate. These changes include consolidation of Fire Station 6 and Fire Station 37, planned to be constructed at the Willows Senior Center parking lot (subject to voter approval); a revised scope of the 9-1-1 Communications Dispatch Center; and the reallocation of the East and South Community Policing Centers into reserves to serve as a contingency until the project award of the South San José Police Substation is completed. Lastly, contingency reserves of \$2.8 million are allocated to ensure sufficient funding is available for project awards that will occur in the latter years of the program.

Following are the Public Safety Bond projects in the Adopted CIP:

- South San José Police Substation
- Driver Safety Training Center
- 9-1-1 Communications Dispatch Center
- New Fire Stations 34 (Berryessa) and 35 (Cottle and Poughkeepsie)
- Fire Station 2 Improvements (Alum Rock Avenue)
- Relocate Fire Stations 12 (Calero), 17 (Cambrian), 19 (Piedmont), 21 (White Road), and 25 (Alviso)
- Relocate Station 24/Construct Station 36 (Silver Creek/Yerba Buena)
- Relocate Station 6/Construct Station 37 (Willow Glen) (subject to voter approval)
- Fire Training Center Improvements
- Fire Station Upgrade
- Reserves for South and East Community Policing Centers (pending South San José Police Substation award)

The CIP also includes funding from the Fire Construction and Conveyance Tax Fund and the General Fund to support many of the infrastructure needs in the Fire Department, including fire apparatus replacement and repair, facilities improvements, hose replacement, emergency response maps, handheld radios, heavy rescue airbags, traffic control equipment, general tools and equipment, computer replacement, records management, and data analysis.

2007–2008 ADOPTED BUDGET MESSAGE

CAPITAL BUDGET OVERVIEW (CONT'D.)

Capital Program Overview by City Service Area (Cont'd.)

Transportation and Aviation Services CSA

The Transportation and Aviation Services CSA includes the Airport, Parking, and Traffic Capital Programs.

Airport Capital Program: The Airport Capital Program's vision statement is to *Provide the Best Service to its Customers, Community and Business Partners*. This Adopted CIP totals \$1.6 billion and includes investments based on the recent amendments to the Airport Master Plan approved by the City Council in June 2006. The CIP represents efforts that incorporated input from a variety of stakeholders in order to develop a facility that would meet community and customer needs while keeping costs low.

The \$501.6 million Terminal Area Development, Phase I is the largest project in the Adopted CIP. This project includes Terminal A improvements, the first half of Terminal B, the phased demolition of Terminal C, roadway improvements, and landscaping and signage. The Airport CIP includes several other major projects including the completion of the North Concourse, a consolidated rental car facility, and public parking improvements.

Parking Capital Program: This program maintains and improves existing facilities, upgrades and replaces both on-street and off-street parking equipment, and develops parking facilities.

In the fall of 2005, the City Council directed staff to update the 2001 Parking Management Plan (PMP) to reflect the current and future supply/demand, review the free parking program, and to recommend parking priorities for the next five years. The Downtown Parking Board approved the updated plan and it was presented and approved by the City Council in June 2007.

The Adopted CIP includes funding to implement Phase II of the Parking Guidance System that will include roadway signs to direct motorists to the parking facilities; to continue replacing the Parking Revenue Control System at several garages and lots; and security improvements. In addition the CIP includes funding for ongoing maintenance and facility improvements.

2007–2008 ADOPTED BUDGET MESSAGE

CAPITAL BUDGET OVERVIEW (CONT'D.)

Capital Program Overview by City Service Area (Cont'd.)

Transportation and Aviation Services CSA (Cont'd.)

Traffic Capital Program: The mission of the Traffic Capital Program is to implement a safe, efficient, and environmentally sensitive surface transportation system, consistent with the goals and policies of the City's General Plan. In the 2008-2012 Adopted Traffic CIP, \$285.4 million is allocated for the purposes of expanding and enhancing the transportation system. These resources are programmed to ensure that the transportation system supports the economic competitiveness of San José and provides residents with safe and attractive street facilities in their neighborhoods.

The investments approved as part of the 2008-2012 Adopted CIP include funding for the operational efficiency and safety of the City's transportation network (\$34.7 million); development of arterial and collector projects (\$21.8 million); North San José projects (\$20.6 million); support for the City's contribution to regional system expansion (\$13.3 million); maintenance and rehabilitation activities including bridge and street maintenance (\$83.5 million); activities that promote community livability including land management, weed abatement and the undergrounding of City utilities and monitoring of environmental mitigation sites (\$7.7 million); local and regional planning and engineering activities (\$19.9 million); project and program support (\$9.6 million); and reserves and transfers (\$71.3 million).



Median Island Landscaping - Quito Road

During 2004-2005, the Santa Clara Valley Transportation Agency (VTA) updated its 30-year regional transportation master plan referred to as Valley Transportation Plan 2030 (VTP 2030). The plan includes an inventory of projects eligible for future regional transportation grant funding. To support the City's Council-adopted priorities in the VTP 2030, a reserve of \$17.2 million was approved in this CIP.

The recent passage of Proposition 1B, the securing of increased federal funds, and the restoration of State Proposition 42 have helped to lessen the disparity between needs and resources. In the Adopted CIP, a combined total funding of \$24.3 million in the Adopted Operating and Capital Budgets was approved in 2007-2008 for this purpose, which is slightly below the \$34 million annual investment considered necessary in the City's 10-Year Street Maintenance Recovery Plan. Combined street maintenance funding over the next five years is estimated at \$123.9 million. This figure is still short of the \$270 million backlog of streets in need of significant repair. A proposed Transportation Needs Master Plan is being developed with community input to address this issue and may consider increased local funding measures to bridge this gap.

2007–2008 ADOPTED BUDGET MESSAGE

CAPITAL BUDGET OVERVIEW (CONT'D.)

Capital Program Overview by City Service Area (Cont'd.)

Transportation and Aviation Services CSA (Cont'd.)

Several of the investments in the Adopted CIP provide advance engineering to bring projects to a state of readiness to help them compete for regional funding. This strategy of proactively planning to leverage new State and federal funds is a continuation of the Traffic Program's successful record in leveraging significant grant funds by investing in upfront planning.

The Adopted CIP also includes \$4.8 million in one-time funds from the General Fund approved to be used to address a portion of the significant backlog of transportation maintenance that will be allocated to pavement maintenance and resurfacing, roadway striping, and traffic sign replacement.

Strategic Support

The Strategic Support CSA includes the Civic Center, Communications, Municipal Improvements, and the Service Yards Capital Programs.

Civic Center Capital Program: The Civic Center Capital Program is responsible for the new City Hall and associated parking facilities construction. The new City Hall includes approximately 530,000 square feet of office and public space. Major components of this project include an 18-story office tower, a council chamber wing, an open public plaza with a rotunda, plus a 372-vehicle underground parking garage to serve the visiting public and some staff. Occupancy of this new facility occurred in mid-2005 and the off-site garage opened in November 2006.

The 2008-2012 Adopted CIP includes funding to continue technology improvements and various outstanding capital improvements at City Hall. In addition, reserves for the Civic Center (\$608,000) and the Civic Center Off-Site Parking Garage (\$2.1 million) are included in the Adopted CIP to fund potential outstanding claims. It should be noted that the Civic Center Off-Site Parking Garage reserve resulted from the over issuance of commercial paper proceeds and if this funding is not required for outstanding project costs, this funding would be transferred back to the City Hall Debt Service Fund and used to reduce future debt service payments.

Communications Capital Program: The Communications Capital Program provides reliable, necessary public safety and non-public safety-related communications equipment for all City employees that require this equipment for their jobs. A total of \$4.2 million is allocated in this CIP to the Equipment Replacement and Upgrade project, which entails replacing a large portion of the communications equipment over the next five years. In addition, \$3.1 million is programmed to develop a trunked radio system in which groups of users are given a logical talk-group to share for their communications, rather than a dedicated radio frequency. This project will maximize available capacity in order to increase public safety communication needs.

2007–2008 ADOPTED BUDGET MESSAGE

CAPITAL BUDGET OVERVIEW (CONT'D.)

Capital Program Overview by City Service Area (Cont'd.)

Strategic Support CSA (Cont'd.)

Municipal Improvements Capital Program: The Municipal Improvements Capital Program provides capital improvements for City facilities that are not funded in other capital programs. The General Fund typically supports these projects. The 2008-2012 Adopted CIP includes the following ongoing allocations: HP Pavilion Repairs (\$500,000); Fuel Tank Monitoring (\$250,000); Closed Landfill Compliance (\$1.53 million); and Unanticipated/Emergency Maintenance (\$1.0 million).

Service Yards Capital Program: The objective of the Service Yards Capital Program is to maintain and improve the existing conditions at the Service Yards by implementing projects to reduce safety hazards, increase efficiencies, and provide necessary equipment and materials for operations. While ongoing funding is allocated to address general capital improvement needs, the majority of funding in this capital program is set aside for the Central Service Yard Phase II project and repayment of debt service on this project.

CONCLUSION

This 2007–2008 Adopted Operating Budget successfully closed a \$16 million General Fund shortfall primarily with ongoing reductions, but also included the strategic use of reserves, one-time dollars, and with fee increases designed to maximize cost recovery in a number of areas. We believe the mix of solutions represented a sound approach to balancing the budget. As we did last year, were able to minimize the use of one-time solutions, which brings the added benefit of minimizing future year shortfalls. While a number of vacant positions were eliminated, the impact on the existing workforce was minimized, and in a few areas we were actually able to strategically add positions to address critical needs. In addition, while the list of unmet needs in the area of infrastructure maintenance remains long, we were able to set aside significant dollars to begin addressing the substantial backlog that continues to grow. In general, I'm proud to note that this budget maintains our commitment to provide essential services, adds resources in the Public Safety CSA, and maintains the City Council's commitment to neighborhoods. This budget accomplishes those objectives while also maintaining the sound financial discipline that has allowed us to manage through the long recession.

2007–2008 ADOPTED BUDGET MESSAGE

CONCLUSION (CONT'D.)

I want to join former City Manager Les White in expressing my respect and admiration for the City workforce, which continues to impress me with its strong commitment and high degree of professionalism. Appreciation is also due to all of the dedicated City employees who worked closely with the Administration through this budget process. In particular, I want to acknowledge and express sincere appreciation to the many employees at all levels of the organization, but most especially the administrative staff in City departments as well as the entire Budget Office, who worked countless hours and contributed so much to the preparation and production of this Budget. Finally, with Les White, I want to thank Larry Lisenbee who retired with this Budget. For 21 years he has helped the City of San José navigate treacherous financial waters as our Budget Director. The City organization and all of San José's residents owe him a deep debt of gratitude.

Debra Figone
City Manager